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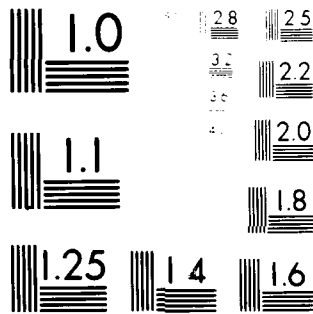
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

LEVEL II

GENERAL GOVERNMENT
DIVISION

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The Honorable Charles E. Lord
Acting Comptroller of the Currency

Dear Mr. Lord:

SUBJECT: The Comptroller of the Currency Should Decide the
Extent to Which His Action Control System is
Needed. (~~600-81-93~~)

As part of our study of changes in bank supervision since 1976, we found that the Action Control System (ACS) of the National Bank Surveillance System (NBSS) has not been working as planned. Your staff recognized ACS shortcomings in October 1980, but as of July 1981 no improvements had been made. An agency committee studying how to redesign the system and produce valid information in a readable format is not addressing the fundamental issues we think require resolution before the system is modified.

OBJECTIVES, SCOPE, AND METHODOLOGY

This letter is one result of our study of changes in bank supervision since 1976. The objective of that study is to see if banking supervision has improved in the last 5 years. Because quality supervision requires current and accurate information, we assessed the banking supervisory agencies' efforts to obtain and use better information on banks. Our analysis of the information that agencies are receiving led us to the Comptroller of the Currency's (OCC) ACS (*Action Control System*).

Although we made no detailed analysis of the design or operation of ACS, we did obtain information about the system in several ways. First, our overall study of supervisory changes included a sample of cases of banks requiring special supervisory attention. We selected these cases to assess how the banking supervisory agencies are dealing with bank problems. At OCC we determined how ACS was used. We also discussed the system with OCC headquarters and regional officials. In addition, we studied documents prepared by OCC staff which described and evaluated the system. — to pg. 4

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ACS NOT ACHIEVING ITS GOALS

The ACS, designed to assure uniform, timely action by OCC for banks deserving supervisory attention, is not meeting its objectives. A major reason may be that OCC never made an adequate study of how best to solve its perceived problem, and consequently ACS' design was faulty. As a result, neither regional nor headquarters personnel fully use the system.

Though written explanations of why the ACS was developed are sketchy at best, an agency official told us the system was supposed to assure that timely and uniform actions are taken on banks requiring more than normal supervisory concern. The Comptroller's staff felt that they needed some central purview and control over the regional offices to assure this. The ACS is intended to provide a reminder for OCC to make sure its information on the status of banks of concern is current, and to furnish a record of corrective actions taken. Quarterly progress reports are to be filed by regional offices showing situation updates. A salient feature of the system is that it is computer-based: everything is reported to a computer system so that both headquarters and regional officials have a quicker communication link.

Some of our case studies show that ACS' goal of providing a quicker communication link on agency actions has not been fully achieved. For instance, OCC thought one bank's condition was poor enough to place the bank in the Special Projects Program for banks warranting special supervisory attention. However, it did not assign the bank to ACS until 7 months later. In the meantime, the OCC regional office overseeing the bank believed the situation was already under control because it was using its own monitoring system. In addition, even though the region was not using ACS to help it take quick action, it had signed a written agreement with the bank within 2 months after the bank was placed in Special Projects. The agreement formally outlined specific corrective measures by which the bank was to solve its problems, and the region used this to monitor progress.

In other cases, the regional offices were lax in meeting their ACS monitoring and reporting requirements. Regions did not always make the required minimum quarterly entries updating a bank's status. When we found a situation in which no entry was made for 5 months--from May 22, 1980, until late October 1980--a regional official told us he had not been given the OCC policy outlining the requirement for quarterly entries. According to a headquarters official, not enough pressure is placed on the regions to keep ACS information current.

For two other banks, no quarterly status reports had been filed for 7 and 10 months at the time we reviewed the files. These lapses do not appear to have hampered OCC's monitoring effort because in the intervening time the regions conducted visitations and an examination, requested progress reports from one bank, and signed a written agreement with the other bank.

Concerns about ACS' effectiveness were confirmed in October 1980 by OCC's Action Control Improvement Committee, formed to study the acknowledged problems. According to the committee, ACS is not being used, its objectives are not being met, and its purpose as a management information tool is not being served. Instead of relying on ACS, some regions track bank conditions with their own manual systems, a far cry from the uniform monitoring ACS was supposed to provide. OCC's perceived need for a fast communication link promoting quicker agency action has not been fulfilled by ACS.

According to the Action Control Improvement Committee, ACS is receiving limited use because its output is not in a format usable to readers. But, in addition, we found that banks in the Special Projects Program can be adequately monitored in other ways. As mentioned earlier, the region in one of our case studies believed it was adequately monitoring a bank without ACS. Several OCC Deputy Regional Administrators for Examinations questioned the need for using ACS to monitor banks in Special Projects. Officials at other banking regulatory agencies feel they do not need computerized systems to monitor their banks which are of supervisory concern because they are already closely monitoring each bank. The OCC Special Projects Program in Washington--overseeing all banks warranting special supervisory attention--does not use ACS for its monitoring. According to the NBSS director, including Special Projects banks in ACS may not be necessary, since the banks already are receiving special consideration.

We believe that a primary cause of ACS' problems was the lack of adequate cost/benefit or other system justification studies before ACS was developed. The problems being encountered with output design indicate insufficient design study. Moreover, though we have made no detailed study ourselves, the fact that some OCC regions and the other banking agencies do not feel that a computerized system is necessary to insure adequate followup indicates that the system may not have been needed.

PLANNED CORRECTIVE ACTION
IGNORES BASIC ISSUES

The Action Control Improvement Committee, mentioned earlier, has made little progress to date in solving ACS problems. In

addition, it is proceeding on the basis of assumptions that may not be valid without attempting to determine the true problems and needs of the office. It should address these before it decides on what may just be a cosmetic solution.

Despite recognizing ACS' problems in October 1980, as of July 1981 the Action Control Improvement Committee had not completed any corrective action, and its plans for improving ACS were limited. OCC attributes the delay in upgrading ACS to difficulties in obtaining suitable computer programming, but it now anticipates changes soon. Since the committee was concerned that ACS' format was not usable to readers, it concluded that ACS' most immediate need was to give users complete, valid information in a readable format. The committee's objective is to redesign ACS into a more usable format. Committee members are still assuming that the overall ACS concept is good.

The shortcomings of ACS might be more than a format redesign can overcome. Because of the questions raised earlier about ACS possibly monitoring some banks that are adequately monitored otherwise, the ACS study should encompass more than format. OCC has never done a cost effectiveness study of NBSS, and now would be a good time to do one of at least the ACS component. ACS costs in 1981 are budgeted at about \$30,000 in computer time alone, with an undetermined expenditure for regional and headquarters staff time. Although a huge sum is not involved, if ACS is not providing useful and more current additional information on Special Projects banks, we question the need to include these banks in the system. Of course, any decision to reduce the scope of ACS coverage should weigh the risk of a bank "falling through the monitoring cracks," as one OCC official has warned.

CONCLUSIONS

Despite its laudable goal of monitoring banks of special concern to OCC, ACS has not been used to the extent originally envisioned. ACS was designed to give OCC a fast communication link so it could take quicker and more uniform action against banks of concern than it could previously.

The OCC committee studying ACS is not going far enough. It is trying to improve ACS' usefulness by redesigning its format. However, it is not addressing the question of the extent to which ACS is needed to solve the perceived problem. Although a need for a standardized monitoring system may exist, ACS may not be the right system to fulfill that need.

RECOMMENDATION

We recommend that you expand the study of the Action Control System to assess the system's purpose, usefulness, and role

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in monitoring banks, as well as its cost effectiveness, and to evaluate the risks that reducing the system's coverage would entail.

AGENCY COMMENTS

In his comments on our draft report, the Acting Comptroller of the Currency concurred with our recommendation. He stated that the Action Control Improvement Committee would address the fundamental issues we raised. (See enc.)

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Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report.

Copies of this report are being sent to the Chairmen of the Senate Committee on Governmental Affairs; the House Committee on Government Operations; Senate Committee on Banking, Housing and Urban Affairs; and the House Committee on Banking, Finance and Urban Affairs.

We wish to thank your staff for its cooperation during our review.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

Enclosure

ENCLOSURE

ENCLOSURE



Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

September 21, 1981

Mr. William J. Anderson
Director
General Government Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Anderson:

We appreciate the opportunity to respond to GAO's draft letter report entitled "The Comptroller of the Currency Should Decide the Extent to which his Action Control System is Needed." In the draft letter report, GAO notes that the Action Control System (ACS) is not meeting its objectives and that there are certain shortcomings in the system.

In the draft, GAO recommends that the Office of the Comptroller of the Currency (OCC) assess the system's purpose, usefulness, and role in monitoring banks, as well as its cost effectiveness. We concur with this recommendation. The OCC's Action Control Improvement Committee, formed in October 1980 to study the existing problems of ACS, will revisit these fundamental issues raised by GAO, including evaluating the risks attendant to reducing the system's coverage.

Very truly yours,

Charles E. Lord
Acting Comptroller of the Currency

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